

February 20, 2008

WORKING CAPITAL FUND

FY 2008 First Quarter Report: Summary

I. Relation of Earnings to Expenses

Based on our reviews, the Fund is performing in a manner consistent with past years. Most businesses are expected to break even, and billings for telephone and network businesses are exceeding costs in order to finance the capital upgrades required for these two businesses. Earned revenue for the Fund has totaled slightly under \$29.3 million for the first quarter, on track for an annual level of approximately \$113.2 million, as forecast in Table III of the December bill. Business Expense for the same period was \$27.6 million resulting in net income of \$1.7 million.

WORKING CAPITAL FUND			
FY 2008 First Quarter Cumulative Business Results (in Millions)			
TABLE I			
<u>Business Line</u>	First Quarter Earnings	First Quarter Business Expenses	First Quarter Net
Supplies	\$0.8	\$0.8	\$0.0
Mail	\$0.5	\$0.5	\$0.0
Copying	\$0.5	\$0.4	\$0.1
Printing/Graphics	\$0.7	\$0.7	\$0.0
Building Occupancy	\$18.8	\$18.1	\$0.7
Telephones	\$2.3	\$2.3	\$0.0
Network	\$1.7	\$1.2	\$0.5
Procurement Services	\$0.2	\$0.3	\$(0.1)
Payroll Processing	\$0.5	\$0.4	\$0.1
CHRIS	\$0.5	\$0.5	\$0.0
Corp Training Services	\$0.2	\$0.1	\$0.1
PMCDP	\$0.3	\$0.3	\$0.0
STARS	\$1.0	\$1.1	\$(0.1)
Financial Controls	\$1.3	\$0.9	\$0.4
TOTAL ¹	\$29.3	\$27.6	\$1.7

Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing

¹ When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

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policies.

With few exceptions, the net earnings by business line are consistent with a longer-term breakeven position. For example, prior-year building profits that were due to unfinished projects are being offset as projects are completed, and Telephone capital accumulation is an offset to the equipment write-off that resulted in large losses in FY 2003. Specific differences in excess of \$50,000 are as follows:

- The Copy Business Line experienced net earnings of \$55,181, due to small profits in both the dedicated copier and Staff Copy Centers.
- The Building Occupancy Business Line experienced net earnings of \$658,632, through the first quarter due to delayed LAI contractual activities paid with py funding (\$0.2 million) and reduced spending in the Electronic Services segment of the business (\$0.4 million).
- The Network Business Line experienced net earnings of \$479,829, through the first quarter, basically on track for the accumulation of capital authorized by the Board in the late 2003 pricing policy changes (\$0.1 million) and one-time prior year cost reversal (\$0.3 million).
- Procurement Services experienced net earnings of -\$92,915, due to closing out contracts in the first quarter that generate less revenue. We expect the net to be zero at year end.
- Payroll experienced net earnings of \$166,788 due to below-plan DFAS billing for payroll services.
- Corporate Training experienced net earnings of \$136,142, due largely to the effect of large class size, significantly above the break even required for each class.
- STARS experienced net earning of -\$93,237, due to operating at a higher level of activity than the budget; the pricing policy is increased in FY 2009 to accommodate this higher activity level.
- The Financial Reporting Control Assessment Business Line experienced net earning of \$345,472, due to cost containment in the first quarter.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings by a net increase of \$2.8 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted \$0.6 million to offset the reverse billing for August/September usage billed in October/November. Costs have been adjusted up by \$8.9 million to reflect inadequate accruals to the accounting system.

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II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By December, 2007 we had collected \$36.2 million (including prior year funding) compared to \$39.2 million in FY 2006 and compared to the estimated \$113.2 million in FY 2008 annual revenues. During January other organizations made further advances and the Fund Manager is working with customers to fully fund their WCF requirements as soon as possible.

Table II is not presented in this report because there were numerous customer advances outstanding as a result of funding problems associated with the continuing resolution.

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III. Relation of Payments to Obligations by Business Line

There have been no violations of administrative control of funds procedures by WCF business lines. As shown in Table III, allocations exceeded obligations by an estimated \$ 20.4 million by the end of the first quarter. This was due largely to delays within the fiscal quarter in acquiring customer funding, and the cautious behavior of the various businesses during the continuing resolution.

The structure of Table III has changed to show the impact of the Board's decision to obligate program funding at the WCF level and to allocate funding to businesses as needed. The Fund Manager's Reserve reflects the prior year unobligated balances and current year customer advances that have not yet been allocated to specific businesses. This Reserve practice allows administrative efficiencies for program billing, maintains a lower reserve requirement for the Fund as a whole, and improves internal controls by managing business equity centrally.

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FY 2008 FIRST QUARTER BUSINESS RESULTS			
(IN MILLIONS)			
TABLE III			
<u>Business Line</u>	Total Allocations	First Quarter Obligations	Advances Remaining to be Obligated
Supplies	\$ 1.0	\$ 0.0	\$ 1.0
Mail	0.4	0.0	0.4
Copying	0.6	0.1	0.5
Printing/Graphics	0.9	0.2	0.7
Building Occupancy	14.4	12.4	1.9
Telephones	4.7	1.2	3.5
Network	1.8	0.2	1.6
Procurement Services	0.1	0.0	0.1
Payroll Processing	0.5	0.1	0.4
CHRIS	0.7	0.4	0.3
Corp Training Services	0.2	0.0	0.1
PMCDP	0.5	0.1	0.3
STARS	1.4	0.4	1.0
Financial Controls	2.4	0.5	1.9
Fund Mgrs Reserve	6.7	0.0	6.7
TOTAL	\$ 36.2	\$ 15.8	\$ 20.4

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IV. Changes in Budget Estimates by Business Line and Customer

The \$6.9 million decrease from the March 2006 to the December 2006 estimate for FY 2008 was the result of eliminating External Independent Reviews (\$7.0 million). Otherwise the FY 2008 billing estimates are reasonably aligned with prior estimates.

FY 2008 Budget Estimates for WCF Businesses		
Date	Process	FY 2008 Billing Estimate (\$Millions)
March 2006	FY 2008 Corporate Review	\$120.1
December 2006	FY 2008 Congressional Budget	\$113.2
December 2007	FY 2009 Congressional Budget	\$113.2
December 2007	December WCF Bill	\$113.2

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the first quarter reviews with the businesses the Fund Manager does not foresee a requirement to change pricing policies for the current year. However, we anticipate the need for Board review of pricing policies in the Building, Phones, Network, Project Management Career Development Program (PMCDP), Financial Reporting Control Assessment (A-123), and Mail businesses for the FY 2010 budget.

- The Mail working group has begun meetings as was forecast in the Annual Report.
- The Phone and Network businesses have been collecting capital to finance the modernization that began this fiscal year. Future capital requirements are probably less than current billing, so we will convene a working group to make recommendations to the Board for the FY 2010 budget.
- The Building business is projecting the need for increased contractual support, and financing for the second phase of the Stairwell Safe Haven project in FY 2010 is still pending board approval.
- PMCDP may require expanding the pricing policy to develop other programs.
- The A-123 business may seek to reduce billings in FY 2010.

In addition, businesses are reviewing their five-year plans in preparation for the FY 2009 budget process. Businesses will begin briefing the Board on requirements at the February Board meeting.

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VI. Financial Management Systems Progress

The WCF billing system continues to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to STARS by the second working day of the month. This allows the Fund staff, with the cooperation of EFASC officials, to have the billings entered into STARS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in STARS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.

